Kansas State University Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Kansas State University Foundation
June 30, 2013 and 2012

Contents

Independent Auditor's Report **1**

Consolidated Financial Statements

Statements of Financial Position 3

Statements of Activities 4

Statements of Cash Flows 6

Notes to Financial Statements 7

Independent Auditor's Report

The Board of Directors of
Kansas State University Foundation
Manhattan, Kansas

We have audited the accompanying consolidated financial statements of Kansas State University Foundation (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Kansas State University Foundation and its supporting organizations as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
November 1, 2013

Kansas State University Foundation

Consolidated Statements of Financial Position

June 30, 2013 and 2012

Assets

	2013	2012
Cash and cash equivalents	$ 60,077,935	$ 39,662,259
Investments	508,411,541	447,687,890
Pledges receivable – net of allowance and discounts	41,654,553	38,929,240
Receivables from estates	8,154,720	1,688,425
Loans receivable	340,761	434,014
Property and equipment, net of accumulated depreciation; 2013 - $2,548,451, 2012 - $2,531,829	1,424,046	1,500,109
Golf Course property and equipment, net of accumulated depreciation; 2013 - $1,470,431, 2012 - $1,116,174	8,059,661	8,152,754
Cash surrender value of life insurance policies	4,768,652	4,311,531
Other assets and accrued investment income	4,621,150	2,569,977
Total assets	$ 637,513,019	$ 544,936,199

Liabilities and Net Assets

	2013	2012
Liabilities		
Accounts payable, deposits and other liabilities	$ 2,047,952	$ 1,994,843
Accrued liabilities	1,671,605	1,955,805
Assets held for others	10,472,741	8,389,756
Unitrust and annuity liabilities	20,164,131	20,188,011
Long-term debt	2,490,586	3,065,599
Total liabilities	36,847,015	35,594,014
Net Assets		
Unrestricted net assets	71,821,867	50,673,340
Temporarily restricted net assets	248,560,120	188,683,534
Permanently restricted net assts	280,284,017	269,985,311
Total net assets	600,666,004	509,342,185
Total liabilities and net assets	$ 637,513,019	$ 544,936,199

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 8,034,505	$ 102,377,998	$ 7,688,670	$ 118,101,173
Investment income (losses)	2,442,056	(699,928)	401,090	2,143,218
Net realized and unrealized gains on investments	18,726,623	26,387,351	2,456,559	47,570,533
Other support				
Operational service charges, management fees and other	4,085,104	-	-	4,085,104
Receipts for grants, research, supplies, travel and other				
University departmental activities and funding allotments, etc.	147,170	5,393,014	4,730	5,544,914
Actuarial gains (losses) on unitrusts and annuity obligations	476,771	(1,701,353)	693,779	(530,803)
Net assets released from restrictions and change in donor designation	72,826,618	(71,880,496)	(946,122)	-
Total revenues, gains and other support	106,738,847	59,876,586	10,298,706	176,914,139
Expenses and Support				
Direct University support				
Scholarships and other student awards	11,455,627	-	-	11,455,627
Academic	8,077,276	-	-	8,077,276
Administrative – Faculty and student support	45,984,420	-	-	45,984,420
Capital improvements	8,007,282	-	-	8,007,282
Subtotal	73,524,605	-	-	73,524,605
Investment – loan interest expense and write-off	228,408	-	-	228,408
Foundation administration	4,189,266	-	-	4,189,266
Foundation fundraising	7,648,041	-	-	7,648,041
Total expenses and support	85,590,320	-	-	85,590,320
Change in Net Assets	21,148,527	59,876,586	10,298,706	91,323,819
Net Assets, Beginning of Year	50,673,340	188,683,534	269,985,311	509,342,185
Net Assets, End of Year	$ 71,821,867	$ 248,560,120	$ 280,284,017	$ 600,666,004

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 1,672,258	$ 67,152,169	$ 6,090,732	$ 74,915,159
Investment income (loss)	1,292,581	(118,735)	122,949	1,296,795
Net realized and unrealized gains (losses) on investments	5,082,985	(41,952)	442,051	5,483,084
Other support				
Operational service charges, management fees and other	3,480,310	-	-	3,480,310
Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc.	31,660	3,855,485	53,708	3,940,853
Actuarial gains (losses) on unitrusts and annuity obligations	(270,760)	403,272	(292,433)	(159,921)
Net assets released from restrictions and change in donor designation	63,510,336	(63,036,927)	(473,409)	-
Total revenues, gains and other support	74,799,370	8,213,312	5,943,598	88,956,280
Expenses and Support				
Direct University support				
Scholarships and other student awards	11,271,543	-	-	11,271,543
Academic	5,113,931	-	-	5,113,931
Administrative – Faculty and student support	41,837,621	-	-	41,837,621
Capital improvements	6,596,052	-	-	6,596,052
Subtotal	64,819,147	-	-	64,819,147
Investment – loan interest expense and write-off	231,367	-	-	231,367
Foundation administration	4,587,604	-	-	4,587,604
Foundation fundraising	6,366,890	-	-	6,366,890
Total expenses and support	76,005,008	-	-	76,005,008
Change in Net Assets	(1,205,638)	8,213,312	5,943,598	12,951,272
Net Assets, Beginning of Year	51,878,978	180,470,222	264,041,713	496,390,913
Net Assets, End of Year	$ 50,673,340	$ 188,683,534	$ 269,985,311	$ 509,342,185

Kansas State University Foundation

Consolidated Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	$ 91,323,819	$ 12,951,272
Items not requiring (providing) operating activities cash flows		
Depreciation	534,654	497,799
Net realized and unrealized gains on investments	(47,570,533)	(5,483,084)
Contributions and investment income received restricted for long-term investment and capital projects	(23,533,609)	(21,935,671)
Contributions for term endowment	(2,930,894)	(1,653,182)
Non-cash contributions	(40,320,550)	(21,836,317)
Non-cash transfers to Kansas State University	6,412,896	5,983,723
Net actuarial losses on unitrust and annuity obligations	530,803	159,921
Changes in		
Pledges receivable	(2,725,313)	(3,557,613)
Receivables from estates	(6,466,295)	3,987,477
Loans receivable	93,253	117,304
Other assets and accrued income	(2,051,173)	(287,058)
Accounts payable and accrued liabilities	(231,091)	1,686,756
Assets held for others	2,082,985	(463,243)
Net cash used in operating activities	(24,851,048)	(29,831,916)
Investing Activities		
Purchase of investments	(73,180,267)	(133,605,354)
Purchase of real estate	(464,345)	(11,875)
Proceeds from sale of investments	95,497,312	142,780,645
Expenditures for property	(377,708)	(444,208)
Cash surrender value of life insurance policies	(457,121)	(309,151)
Net cash provided by investing activities	21,017,871	8,410,057
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	23,533,609	21,935,671
Contributions for term endowment	2,930,894	1,653,182
Proceeds from issuance of long-term debt	1,152,961	164,178
Principal payments on long-term debt	(1,727,974)	(915,218)
Proceeds from issuance of annuities and trusts payable	872,574	2,909,768
Payments on annuities and trusts payable	(2,513,211)	(2,533,660)
Net cash provided by financing activities	24,248,853	23,213,921
Change in Cash and Cash Equivalents	20,415,676	1,792,062
Cash and Cash Equivalents, Beginning of Year	39,662,259	37,870,197
Cash and Cash Equivalents, End of Year	$ 60,077,935	$ 39,662,259
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 149,608	$ 153,092

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The purpose of Kansas State University Foundation (the Foundation) is to encourage, receive and hold in trust any real or personal property given for the use of Kansas State University, its faculty and students (the University); and to invest, disburse, manage and control all such gifts in accordance with donor intent and to provide those services to the University which are not or cannot be provided through state appropriations or student fees.

Supporting Organizations and Principles of Consolidation

The Foundation's financial statements include three supporting organizations, the Kansas State University Golf Course Management and Research Foundation, formed in 1997, the Foundation for Engineering at Kansas State University, Inc., formed in 2009 and the Kansas State University Charitable Real Estate Foundation (KSUCREF), formed in 2012. At June 30, 2012, there had been no activity in KSUCREF. Cash and thirty-seven investment properties, with a total fair value of $19,590,740, were transferred from the Foundation to KSUCREF during 2013. The financial statements of these organizations have been consolidated with the Foundation's financial statements in accordance with accounting principles generally accepted in the United States of America. All significant inter-organizational accounts and transactions are eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of uninsured money market mutual funds totaling $37,086,058 and $33,502,769, respectively, and certificates of deposit.

At June 30, 2013, the Foundation's cash accounts exceeded federally insured limits by approximately $22,534,000.

Investments and Investment Return

Investments in equity securities, mutual funds, and futures contracts having a readily determinable fair value and in all debt securities are carried at fair value. Investments in pooled separate accounts, private capital funds and hedge funds are recorded at the estimated net asset value per share, as a practical expedient to fair value, of the investments. Closely held stock is recorded at fair value as determined by a third party appraiser hired by the company for which the Foundation holds stock. The Company has elected to record other investments consisting primarily of real estate at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments using the unitized share methodology similar to that of a mutual fund. Each unit represents a proportionate interest in the underlying assets and associated earnings and distributions proportionate to the units.

Receivables

The Foundation reports pledges receivable expected to be collected within one year at net realizable value. Pledges expected to be collected in future years are initially reported at fair value determined using the discounted present value of future contributions. The Foundation provides an allowance for doubtful collections, which is based upon a review of outstanding pledge receivables, historical collection information and existing economic conditions. Pledge receivables are considered past due if they are not received by their payment instrument due date. Delinquent pledges are written off based on individual credit evaluation and specific circumstances of the donor.

Receivables from estates are recorded at the time the Foundation is notified of the death of a donor and the amount receivable from the estate can be reasonably measured.

Loans receivable, including student loans, real estate mortgages and other loans, are recorded at amounts advanced to borrowers less principal repayments received. Uncollectible loans are written off using the direct write-off method. A loan is considered uncollectible when management determines the borrower is failing to meet repayment terms or other reasons. Interest income is recognized as earned.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The Foundation's capitalization policy is to capitalize any fixed asset over $1,000 at cost.

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairments were recognized during the years ended June 30, 2013 and 2012.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment, and other long-lived assets are reported at estimated or appraised values at the time of receipt as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value, determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Contributions Establishing Charitable Trusts

The Foundation accepts donor contributions to establish trust agreements in exchange for a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets for the beneficiary's lifetime or a specific time period. A portion of the donation is considered to be a charitable contribution and the remaining portion represents a liability equal to the present value of future payments. The liability is revalued annually based on actuarially computed present values.

Income Taxes

Pursuant to determination letters received from the Internal Revenue Service (IRS), the Foundation is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a public foundation. The Foundation is subject to income tax on the unrelated business income.

The Foundation files tax returns in the U.S. Federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. Federal examinations by tax authorities for years before 2009.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the date the transaction occurs.

Operational Service Charges and Management Fees

The Foundation provides services to the University, its colleges and other entities affiliated with the University for which the Foundation is reimbursed. Revenue from these services is recognized by the Foundation as they provide such services.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Note 2: Investments and Investment Return

Investment management is governed by policies and procedures established by the Asset Management Committee, a committee of the Board of Directors, in collaboration with staff and consultants. Staff implements the policies through: 1) the selection of investment strategies; 2) the hiring, monitoring and changing of investment managers; and 3) rebalancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting.

Private capital and hedge funds are included in the endowment pool to diversify assets, provide portfolio return enhancement and dampen volatility. Hedge fund managers run proprietary strategies employing securities and instruments such as cash, stocks, partnerships, bonds and derivative instruments including options, futures and swaps in various combinations, sometimes shorting various securities and employing leverage to construct desired risk/return characteristics that are less correlated to the major asset classes.

The Foundation's investments include debt and equity securities for liquidity, donated assets and real estate, as well as a managed portfolio of long-term investments. The Foundation's investments at June 30, 2013 and 2012 were as follows:

	2013		
	Endowment Pool	Other Investments	Total Investments
Equity securities	$ 12,585,888	$ 888,248	$ 13,474,136
Short-term investments and certificates of deposit	-	150,000	150,000
Mutual funds			
Equity securities	45,128,849	23,836,132	68,964,981
Fixed income securities	-	13,303,990	13,303,990
Pooled separate funds			
Equity securities	57,089,583	7,080,715	64,170,298
Fixed income securities	14,714,426	8,776,000	23,490,426
U.S. government and agency obligations	-	1,606,410	1,606,410
Private capital			
Real estate investments	5,247,743	-	5,247,743
Venture capital	22,414,108	545,023	22,959,131
Domestic private equity	25,095,687	-	25,095,687
International private equity	16,960,389	-	16,960,389
Private capital distressed debt	17,199,943	-	17,199,943
Natural resources	24,857,960	-	24,857,960
Hedge funds			
Absolute return	18,594,790	5,314,881	23,909,671
Long/short equity	50,505,378	1,331,730	51,837,108
Futures contracts			
Money market mutual fund	28,839,383	-	28,839,383
Restricted cash - margin requirement	6,638,226	-	6,638,226
Excess cash	706,350	-	706,350
Closely held common stock	-	67,974,972	67,974,972
Real estate held for investment	-	30,928,312	30,928,312
Other securities and investments	-	96,425	96,425
	$ 346,578,703	$ 161,832,838	$ 508,411,541

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

	2012		
	Endowment Pool	Other Investments	Total Investments
Equity securities	$ 9,552,832	$ 467,279	$ 10,020,111
Short-term investments and certificates of deposit	-	350,016	350,016
Mutual funds			
Equity securities	40,625,196	21,711,119	62,336,315
Fixed income securities	-	13,252,907	13,252,907
Pooled separate funds			
Equity securities	44,897,649	6,667,078	51,564,727
Fixed income securities	15,147,888	7,673,591	22,821,479
Natural resources	11,984,594	-	11,984,594
U.S. government and agency obligations	1,110,505	3,337,191	4,447,696
Private capital			
Real estate investments	7,578,842	-	7,578,842
Venture capital	20,602,358	504,326	21,106,684
Domestic private equity	28,420,015	-	28,420,015
International private equity	15,692,088	-	15,692,088
Private capital distressed debt	15,986,559	-	15,986,559
Natural resources	13,720,165	-	13,720,165
Hedge funds			
Absolute return	17,079,928	5,788,413	22,868,341
Long/short equity	41,475,397	-	41,475,397
Futures contracts			
Money market mutual fund	27,704,517	-	27,704,517
Cash and cash equivalents	2,095,778	-	2,095,778
Restricted cash - margin requirement	2,291,344	-	2,291,344
Open trade equity	1,271,310	-	1,271,310
Closely held common stock	-	41,107,093	41,107,093
Real estate held for investment	-	29,518,160	29,518,160
Other securities and investments	-	73,752	73,752
	$ 317,236,965	$ 130,450,925	$ 447,687,890

The Foundation's endowment pool strives to achieve long term capital appreciation and consistent income by utilizing a "total return investment strategy." The Foundation uses an inflation adjusted distribution policy attempting to provide a stable revenue stream to the university while maintaining intergenerational equity. The distributions from the endowment pool are calculated by adjusting the prior year's distribution amount annually for inflation. To avoid potential unconscionable under-distributions or unsustainable over-distributions relative to the endowment pool market value, the annual inflation adjusted distribution is limited to maximum and minimum total distributions to purpose. The maximum distributions to purpose are 4.75 percent of market value and the minimum distributions are 3 percent, both of which are calculated annually using the market value at the beginning of the fiscal year. This action is consistent with the Board of Directors' long term strategic plans and attempts to treat all generations equitably and protect future purchasing power.

A volatility cap overlay was implemented in the Endowment Pool during April of 2012. Ten percent of the Endowment Pool market value was placed in money market funds as potential collateral on exchange traded futures contracts should volatility of the replicated portfolio reach the trigger of 25%. Until that volatility level is reached, exchange traded futures contracts are held to replicate exposures of that ten percent of the Endowment Pool, and collateral of $6,638,226 and $2,291,344 is held in a margin account at Goldman Sachs as of June 30, 2013 and 2012, respectively.

Investment managers' fees totaled approximately $2,256,000 and $1,963,000 for the years ended June 30, 2013 and 2012, respectively.

Total investment return for the years ended June 30, 2013 and 2012 is comprised of the following:

	2013	2012
Interest and dividends	$ 2,143,218	$ 1,296,795
Net realized and unrealized gains on investments reported at fair value	47,570,533	5,483,084
	$ 49,713,751	$ 6,779,879

Alternative Investments

Except as described below, the fair value of the following investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30, 2013 and 2012 consist of the following:

	June 30, 2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	$ 64,170,298	$ -	Monthly	5-45 days
Fixed income securities	23,490,426	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	5,247,743	-	None	None
Venture capital	22,959,131	20,262,950	None	None
Domestic private equity	25,095,687	10,778,162	None	None
International private equity	16,960,389	7,437,643	None	None
Private capital distressed debt - Liquid	2,577,606	2,136,400	Annual	120 days
Private capital distressed debt - Illiquid	14,622,337	652,798	None	None
Natural resources	24,857,960	5,008,250	None	None
Hedge funds				
Absolute return (C)	23,909,671	-	Monthly to Annually	30-90 days
Long/short equity (D)	51,837,108	-	Monthly to Annually	30-90 days

	June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	$ 51,564,727	$ -	Monthly	5-45 days
Fixed income securities	22,821,479	-	Monthly	5-45 days
Natural resources	11,984,594	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	7,578,842	-	None	None
Venture capital	21,106,684	24,293,323	None	None
Domestic private equity	28,420,015	13,091,838	None	None
International private equity	15,692,088	9,492,197	None	None
Private capital distressed debt - Liquid	12,627,696	2,676,800	Annual	120 days
Private capital distressed debt - Illiquid	3,358,863	652,798	None	None
Natural resources	13,720,165	7,198,250	None	None
Hedge funds				
Absolute return (C)	22,868,341	-	Monthly to Annually	30-90 days
Long/short equity (D)	41,475,397	-	Monthly to Annually	30-90 days

(A) This category includes investments in pooled separate accounts which hold exchange-traded equity securities, fixed income securities and a multi-strategy commodities fund. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account only allows for monthly liquidity at a month end net asset value.

(B) This category includes investments in private equity and venture capital that invest primarily in domestic and international private companies. Private capital funds are structured as closed-end, commitment-based investment funds where a specified amount of capital is committed upon inception of the fund which is then drawn down over a period of three to five years, and distributions are received through the liquidation of underlying assets of the fund. The typical term of these investments is 12-15 years. Such funds generally do not provide redemption options for investors.

(C) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition, certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

(D) This category includes investments in hedge funds that take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition, certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

Note 3: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

Kansas State University Foundation

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

		2013 Fair Value Measurements		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Money market mutual funds	$ 37,086,058	$ 37,086,058	$ -	$ -
Investments				
Equity securities	13,474,136	13,474,136	-	-
Mutual funds				
Equity securities	68,964,981	68,964,981	-	-
Fixed income securities	13,303,990	13,303,990	-	-
Pooled separate funds				
Equity securities	64,170,298	-	64,170,298	-
Fixed income securities	23,490,426	-	23,490,426	-
U.S. Government and agency obligations	1,606,410	68,533	1,537,877	-
Private capital				
Real estate investments	5,247,743	-	-	5,247,743
Venture capital	22,959,131	-	-	22,959,131
Domestic private equity	25,095,687	-	-	25,095,687
International private equity	16,960,389	-	-	16,960,389
Private capital distressed debt	17,199,943	-	-	17,199,943
Natural resources	24,857,960	-	-	24,857,960
Hedge funds				
Absolute return	23,909,671	-	23,909,671	-
Long/short equity	51,837,108	-	51,741,944	95,164
Futures contracts				
Money market mutual fund	28,839,383	28,839,383	-	-
Restricted cash - margin requirement	6,638,226	6,638,226	-	-
Excess cash	706,350	706,350	-	-
Closely held common stock	67,974,972	-	-	67,974,972
Real estate held for investment	30,928,312	-	-	30,928,312
Other securities and investments	96,425	53,594	-	42,831
	$ 545,347,599	$ 169,135,251	$ 164,850,216	$ 211,362,132
	100%	31%	30%	39%

		2012 Fair Value Measurements		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents				
Money market mutual funds	$ 33,502,769	$ 33,502,769	$ -	$ -
Investments				
Equity securities	10,020,111	10,020,111	-	-
Mutual funds				
Equity securities	62,336,315	62,336,315	-	-
Fixed income securities	13,252,907	13,252,907	-	-
Pooled separate funds				
Equity securities	51,564,727	-	51,564,727	-
Fixed income securities	22,821,479	-	22,821,479	-
Natural resources	11,984,594	-	11,984,594	-
U.S. Government and agency obligations	4,447,696	65,382	4,382,314	-
Private capital				
Real estate investments	7,578,842	-	-	7,578,842
Venture capital	21,106,684	-	-	21,106,684
Domestic private equity	28,420,015	-	-	28,420,015
International private equity	15,692,088	-	-	15,692,088
debt	15,986,559	-	-	15,986,559
Natural resources	13,720,165	-	-	13,720,165
Hedge funds				
Absolute return	22,868,341	-	22,868,341	-
Long/short equity	41,475,397	-	41,157,739	317,658
Futures contracts				
Money market mutual fund	27,704,517	27,704,517	-	-
Cash and cash equivalents	2,095,778	2,095,778	-	-
Restricted cash - margin requirement	2,291,344	2,291,344	-	-
Open trade equity	1,271,310	-	1,271,310	-
Closely held common stock	41,107,093	-	-	41,107,093
Real estate held for investment	29,518,160	-	-	29,518,160
Other securities and investments	73,752	57,755	-	15,997
	$ 480,840,643	$ 151,326,878	$ 156,050,504	$ 173,463,261
	100%	31%	32%	36%

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Foundation expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Foundation does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management obtains fair value estimates from the investment managers on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Asset (Alternative Investments)	Asset (Closely Held Common Stock)	Asset (Real Estate Held for Investments)	Asset (Other Investments and Securities)	Total
Balance, July 1, 2011	$ 93,577,647	$ 21,934,109	$ 25,040,555	$ 89,709	$ 140,642,020
Total realized and unrealized gains and losses included in change in net assets	579,475	9,201,022	4,426,391	-	14,206,888
Purchases/donations	24,690,008	10,472,000	619,858	-	35,781,866
Sales/redemptions	(16,025,119)	(500,038)	(568,644)	(73,712)	(17,167,513)
Balance, June 30, 2012	102,822,011	41,107,093	29,518,160	15,997	173,463,261
Total realized and unrealized gains and losses included in change in net assets	6,318,796	3,165,641	3,710,182	-	13,194,619
Purchases/donations	22,761,659	24,202,346	469,345	26,834	47,460,184
Sales/redemptions	(19,486,449)	(500,108)	(2,769,375)	-	(22,755,932)
Balance, June 30, 2013	$ 112,416,017	$ 67,974,972	$ 30,928,312	$ 42,831	$ 211,362,132

Realized and unrealized gains and losses for items reflected in the table above are included in change in net assets in the statements of changes in net assets as follows:

	2013	2012
Total gains and losses	$ 9,855,024	$ 4,923,704
Change in unrealized gains or losses relating to assets still held at the statement of financial position date	5,272,881	9,283,184

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at 6/30/2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Closely held stock	$ 67,974,972	Capitalization of Cash Flow	Risk free rate - 2.50%	30%
			WACC - 10.0%	
			Long-term growth - 4.0%	
		Market approach		
		Guideline Company Method	Minority interest discount - 22%	55%
		Private Transaction Method	Minority interest discount - 22%	15%
Real estate held for investments	30,928,312	Sales Comparison	Property sales of like properties	48%
			Comparative advantages and deficiencies	
		Property tax appraisals	Values determined by local county	52%
Private capital/hedge funds and other	112,458,848	Net asset value	See Note 2 for net asset value used as a practical expedient to fair value	N/A

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statement of net assets at amounts other than fair value. For each of the following, management has concluded the carrying amount approximates fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Pledges and Estimated Receivables

Fair value is estimated at the present value of the future payments expected to be received.

Loans Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

Notes Payable

Fair value is estimated based on borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

Liability for Annuities Payable

The liability for annuities payable is based on the annuitants' life expectancies and a discounted cash flow of payments estimated to be paid to the beneficiaries. The liability is amortized each year based upon the life expectancies of the beneficiaries.

Note 4: Endowment

The Foundation's endowment consists of approximately 3,180 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2013 and 2012, was as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments				
Market value of endowments	$ (7,650,230)	$ 12,941,525	$ 285,465,277	$ 290,756,572
Board-designated endowments				
Board designated	36,431,603	-	-	36,431,603
Board policy to address underwater endowments	35,303,561	-	-	35,303,561
Quasi and term endowments	-	48,365,863	-	48,365,863
	$ 64,084,934	$ 61,307,388	$ 285,465,277	$ 410,857,599

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments				
Market value of endowments	$ (13,920,429)	$ 356,258	$ 272,267,315	$ 258,703,144
Board-designated endowments				
Board designated	32,261,437	-	-	32,261,437
Board policy to address underwater endowments	28,232,722	-	-	28,232,722
Quasi and term endowments	-	46,308,338	-	46,308,338
	$ 46,573,730	$ 46,664,596	$ 272,267,315	$ 365,505,641

The following items are included in the Net Assets at June 30, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds (per previous table)	$ 64,084,934	$ 61,307,388	$ 285,465,277	$ 410,857,599
Non-endowment funds available for expenditure for purpose	5,564,585	26,484,583	-	32,049,168
Donor-restricted expendable gifts	-	135,489,789	-	135,489,789
Pledges receivable	8,894	32,335,684	9,309,975	41,654,553
Cash surrender value	296,622	2,667,303	1,804,727	4,768,652
Receivables from estates	4,525,000	3,524,720	105,000	8,154,720
Unitrust and annuity liabilities	-	(3,860,838)	(16,303,293)	(20,164,131)
Funds held for others	(986,563)	(9,388,509)	(97,669)	(10,472,741)
Accrued payroll liabilities	(1,671,605)	-	-	(1,671,605)
	$ 71,821,867	$ 248,560,120	$ 280,284,017	$ 600,666,004

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds (per previous table)	$ 46,573,730	$ 46,664,596	$ 272,267,315	$ 365,505,641
Non-endowment funds available for expenditure for purpose	5,259,979	27,956,886	-	33,216,865
Donor-restricted expendable gifts	-	90,318,193	-	90,318,193
Pledges receivable	16,832	31,678,706	7,233,702	38,929,240
Cash surrender value	282,906	2,533,325	1,495,300	4,311,531
Receivables from estates	49,000	1,079,822	559,603	1,688,425
Other	-	-	5,459,164	5,459,164
Unitrust and annuity liabilities	-	(3,204,225)	(16,983,786)	(20,188,011)
Funds held for others	-	(8,343,769)	(45,987)	(8,389,756)
Accrued payroll liabilities	(1,509,107)	-	-	(1,509,107)
	$ 50,673,340	$ 188,683,534	$ 269,985,311	$ 509,342,185

Changes in endowment net assets for the years ended June 30, 2013 and 2012, were:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 46,573,730	$ 46,664,596	$ 272,267,315	$ 365,505,641
Investment return	16,390,427	12,859,876	-	29,250,303
Contributions and collections on pledges and estates	-	9,504,340	14,144,084	23,648,424
Appropriation of endowment assets for expenditure and change in donor designation	(2,987,349)	(7,721,424)	(946,122)	(11,654,895)
Transfers to Board-designated	4,108,126	-	-	4,108,126
Endowment net asset - End of year	$ 64,084,934	$ 61,307,388	$ 285,465,277	$ 410,857,599

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 50,779,027	$ 65,193,486	$ 257,535,823	$ 373,508,336
Investment return	(10,069,040)	-	-	(10,069,040)
Contributions and collections on pledges and estates	-	8,136,181	14,731,492	22,867,673
Appropriation of endowment assets for expenditure	(463,423)	(26,665,071)	-	(27,128,494)
Transfers to Board-designated	6,327,166	-	-	6,327,166
Endowment net asset - End of year	$ 46,573,730	$ 46,664,596	$ 272,267,315	$ 365,505,641

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2013 and 2012 consisted of:

	2013	2012
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	$285,465,277	$272,267,315
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	$ 61,307,388	$ 46,664,596

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $7,650,230 and $13,920,429 at June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. A reserve was established in the fiscal year ended June 30, 2012 to fund underwater accounts designated for scholarships and faculty endowed salary supplements. For the fiscal year ended June 30, 2013 and 2012, the total return of the Endowment Pool was 12.04% and (1.65%), respectively.

The Foundation's Board of Directors determines the Endowment Pool's percentage distribution of total return to the participating funds. The distributions approved by the Board of Directors are:

1. A distribution to purpose, annually adjusted by inflation but always within a range between three and five percent of the market value. This percentage was made available to the participating funds for spending. This inflation based method is intended to address current University needs as well as preserve purchasing power for future generations.

2. .23% of the market value will be distributed to the campus units as discretionary funds.

3. 1.40% of the market value for fiscal year 2013 will be distributed to the Foundation for allocation as determined each year by the Board of Directors.

4. The balance of the total return remains in the participating funds.

For those participating accounts with a market value less than the donor's liquidated contributed value, commonly known as "underwater endowments," current income (interest, dividends, rents) is distributed based upon the following prioritization:

1. The Foundation allocation is distributed to the extent there is sufficient current investment income to do so.

2. To the extent current investment income remains available, a distribution is made for funding the purpose of the participating account, up to that amount that would have been distributed had the account's market value been greater than the historic book value.

3. To the extent current investment income remains available, a distribution to the campus unit's discretionary fund will be made, up to that amount that would have been distributed had the account's market value been greater than the historic book value.

4. Remaining current investment income, if any, and the remainder of the approved distribution will be returned to the account.

Term endowed accounts are invested in the same manner as permanently endowed accounts and share the same endowment pool operating costs. They differ from permanently endowed accounts in that quasi-endowment distributions may utilize the donor's gift and earnings/investment growth to make the distribution to purpose and the distribution rate is specific to the donor memo of understanding.

A donor to a term-endowment account may choose from three distribution options:

1. Fixed dollar option pays distributions in multiples of $500; or

2. Fixed percentage option pays distributions of 4, 5, 6 or 8 percent of market value annually; or

3. Situational option pays distributions of 50 or 100 percent of tuition and fees for the number of hours taken by an average full-time student.

Term endowed accounts are to be established at a financial amount expected to last for 10 years or more.

Effective July 1, 2013, the Foundation has changed its policy regarding distributions on underwater funds. No distributions will be allowed on funds more than 15% underwater.

For funds that are underwater 0-7.5%, the full distribution as a participating account will be made; for funds 7.5% to 15%, it will be a 50% distribution of the amount of a participating account.

Note 5: Asset Holdings

The Foundation has a general policy of investing assets to maximize rates of return, consistent with sound and safe business principles. The Foundation also holds certain assets for the benefit of Kansas State University which do not provide a market rate of return on funds invested. Some examples of these investments and other direct benefits provided to the University include:

University Real Estate Fund – Certain real estate holdings vital to the mission of the University were purchased and are held for current and potential University use.

Smith Scholarship House – The Foundation has provided the building rent-free in order to maintain the House in operation for the benefit of the students.

Holiday Inn (formerly Ramada Inn) and Wildcat BP (formerly University Amoco) – The hotel and service station located adjacent to the University were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the University.

Faculty and Accommodation Loans – The Foundation provides faculty loans at favorable interest rates to University faculty and staff to enable them to conduct business travel pending reimbursement from the University. Non-interest bearing accommodation loans are available to faculty and staff when their salary payment cannot be processed by the University by payday.

Total real estate held for investment for the benefit of Kansas State University at June 30, 2013 and 2012 was $30,928,312 and $29,518,160, respectively *(see Note 2)*. As discussed in Note 1, the Foundation transferred nearly all the real estate held for investment to KSUCREF, a consolidated supporting organization, during the year ended June 30, 2013.

Note 6: Pledges Receivable

Pledges receivable consisted of the following at June 30, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	$ 2,000	$ 10,444,172	$ 2,135,403	$ 12,581,575
Due in one to five years	8,000	23,067,039	8,187,686	31,262,725
Due thereafter	-	3,346,566	44,980	3,391,546
	10,000	36,857,777	10,368,069	47,235,846
Less				
Allowance for uncollectible contributions	200	1,149,611	217,631	1,367,442
Unamortized discount	906	3,372,482	840,463	4,213,851
	$ 8,894	$ 32,335,684	$ 9,309,975	$ 41,654,553

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	$ 11,667	$ 12,288,087	$ 1,916,491	$ 14,216,245
Due in one to five years	5,333	20,897,673	5,511,421	26,414,427
Due thereafter	-	1,139,375	382,630	1,522,005
	17,000	34,325,135	7,810,542	42,152,677
Less				
Allowance for uncollectible contributions	-	1,006,720	137,280	1,144,000
Unamortized discount	168	1,639,709	439,560	2,079,437
	$ 16,832	$ 31,678,706	$ 7,233,702	$ 38,929,240

Discount rate used on pledges receivable was 3.25% at June 30, 2013 and 2012.

As of June 30, 2013 and 2012, approximately 26% and 11% of pledges receivable was due from two and one donors, respectively.

See significant estimate discussion regarding the allowance for doubtful collections in Note 15.

Approximately $29,228,000 and $20,155,000 of pledges receivable were due from related parties such as members of the board of directors and trustees, employees of the Foundation, and University affiliated organizations and colleges, as of June 30, 2013 and 2012, respectively.

Note 7: Property and Equipment

Property and equipment at June 30, 2013 and 2012 consisted of:

	2013	2012
Buildings and improvements	$ 2,691,104	$ 2,650,855
Furniture and equipment	1,071,499	1,125,972
Other	209,894	255,111
	3,972,497	4,031,938
Less accumulated depreciation and amortization	(2,548,451)	(2,531,829)
	$ 1,424,046	$ 1,500,109

Golf Course assets are reported net of accumulated depreciation on the Foundation's consolidated financial statements. Property and equipment for the Golf Course consist of:

	2013	2012
Land and land improvements	$ 3,317,040	$ 3,287,365
Buildings and improvements	5,159,824	5,159,824
Other	1,053,228	821,739
	9,530,092	9,268,928
Less accumulated depreciation and amortization	(1,470,431)	(1,116,174)
	$ 8,059,661	$ 8,152,754

Note 8: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes or periods:

	2013	2012
Departmental Support/Excellence	$162,246,457	$123,276,140
Student scholarships and support	43,840,985	37,723,187
Property, plant and equipment	28,565,739	15,257,527
Professorships and faculty support	7,652,163	6,785,720
Research	6,254,776	5,640,960
	$248,560,120	$188,683,534

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to support:

	2013	2012
Student scholarships and support	$149,958,852	$144,418,089
Departmental support	58,754,201	62,855,590
Professorships and faculty support	51,138,876	49,408,446
Research	9,740,396	9,199,247
Property, plant and equipment	10,691,692	4,103,939
	$280,284,017	$269,985,311

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Scholarships and other student awards	$ 11,455,627	$ 11,271,543
University support - Academic	8,099,345	5,044,060
University support - Administrative	45,168,818	40,430,279
University support - Capital improvements	7,946,725	6,596,052
Other support	156,103	168,402
	$ 72,826,618	$ 63,510,336

Note 9: Unitrust and Annuity Liabilities

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. Beneficiary annuity rates typically follow the guidelines recommended by the American Council on Gift Annuities and range from 5% to 12%. The assets received from donors are recorded at fair value. The Foundation has recorded a liability at June 30, 2013 and 2012, totaling $4,521,700 and $4,674,640, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 1.2% in 2013 and 2012.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime or a specific time period). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions or permanently restricted contributions as designated by the donor, in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 1.2% as well as applicable mortality tables, and amounted to $15,642,431 and $15,513,371 at June 30, 2013 and 2012, respectively. Total actuarial losses related to these agreements amounted to $530,803 and $159,921 during 2013 and 2012, respectively.

Note 10: Employee Benefit Plan

The Foundation's board of trustees has established the Kansas State University Foundation Defined Contribution Retirement Plan (the Plan). The Plan provides for an employer matching contribution of 8.5% for each year. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were $474,459 and $440,944 for the years ended June 30, 2013 and 2012, respectively.

Employees are eligible to immediately participate on a voluntary basis upon being hired. An eligible employee is required to begin participation in the Plan no later than upon the completion of two years of service at the Foundation.

Note 11: Consolidation of Supporting Organization – KSUGCMRF

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University's mission. The corporation was granted tax-exempt status by the Internal Revenue Service. Although consolidated for financial reporting purposes, KSUGCMRF is a separate corporation, and its assets and liabilities are separate from those of the Foundation. The Foundation is not liable for and has not guaranteed the debts or obligations of KSUGCMRF. A summary of financial information for KSUGCMRF at and for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Assets		
Cash	$ 672,518	$ 270,918
Real estate and other depreciable assets (net of depreciation)	8,059,661	8,152,754
Pledges receivable	1,619,846	1,693,617
Other assets	153,749	188,278
Total assets	10,505,774	10,305,567
Liabilities		
Accrued liabilities	207,458	304,657
Mortgages payable	1,504,109	1,380,198
Total net assets	$ 8,794,207	$ 8,620,712

	2013	2012
Revenue, gains and other support	$ 1,010,425	$ 872,316
Expenses and support	(836,930)	(851,689)
Change in Net Assets	173,495	20,627
Net Assets, Beginning of Year	8,620,712	8,600,085
Net Assets, End of Year	$ 8,794,207	$ 8,620,712

Note 12: Consolidation of Supporting Organization – FEKSU

The Foundation for Engineering at Kansas State University, Inc. (FEKSU) is a supporting organization formed for charitable and educational purposes exclusively to support the Kansas State University Foundation benefiting the College of Engineering at Kansas State University. This not-for-profit corporation was formed in 2009 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The corporation has applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for FEKSU at June 30, 2013 and 2012, is as follows:

	2013	2012
Assets		
Cash	$ 2,722,343	$ 2,220,299
Closely held stock (at market value)	67,974,972	41,107,093
Total net assets	$ 70,697,315	$ 43,327,392
Sources		
Contributions	$ 24,202,346	$ 10,472,000
Interest income	1,936	1,007
Net realized and unrealized gains	3,165,641	9,201,022
Change in Net Assets	27,369,923	19,674,029
Net Assets, Beginning of Year	43,327,392	23,653,363
Net Assets, End of Year	$ 70,697,315	$ 43,327,392

Note 13: Consolidation of Supporting Organization – KSUCREF

The Kansas State University Charitable Real Estate Foundation (KSUCREF) is a supporting organization formed to hold and manage real estate properties held for investment. The corporation applied for and received tax-exempt status with the Internal Revenue Service. As of the year ended June 30, 2012 there was no activity in the CREF. A summary of financial information for KSUCREF at and for the year ended June 30, 2013, is as follows:

Assets	
Cash	$ 464,441
Investments	21,480,298
Lease income receivable	685,619
Other assets	1,111,564
Total assets	23,741,922
Liabilities	
Accrued liabilities	1,136,497
Deferred income	102,390
Mortgages payable	660,000
Total net assets	$ 21,843,035

Revenue, gains and other support	$ 2,931,713
Expenses and support	(679,418)
Change in Net Assets	2,252,295
Net Assets, Beginning of Year	-
Assets contributed by the Foundation	19,590,740
Net Assets, End of Year	$ 21,843,035

Note 14: Long-term Debt

	2013	2012
Nanoscale Note Payable, Commerce Bank (A)	$ -	$ 1,297,300
CREF Line of Credit, Commerce Bank (B)	660,000	-
Printing Services Note Payable, UMB Bank (C)	326,477	388,101
KSUGCMRF Notes Payable, Kansas State Bank (D)	1,504,109	1,380,198
	$ 2,490,586	$ 3,065,599

(A) Due July 2022; payable $13,268 monthly, including interest at 4.25% adjustable every three years; secured by research/office facility leased to Nanoscale Materials, Inc. Note was refinanced with (B) below.

(B) Due October 2013; payable in full at maturity, including interest at 2.75%; secured by accounts receivable, inventory, and equipment allows for borrowing up to $1,000,000.

(C) Due January 2018; payable $6,330 monthly, including interest at 2.75%; secured by a warehouse/office building on Corporate Drive in Manhattan, Kansas.

(D) Consists of two notes payable and a line of credit from KSUGCMRF with Kansas State Bank. The two notes payable are due August 2015, both with interest rate at 5.5% payable $46,396 and $233,085 bi-annually; secured by certain property and equipment. During 2012, KSUGCMRF obtained a $400,000 line of credit, maturing June 2017 with interest rate at 4.09% payable $7,465 monthly; secured by certain property and equipment. At June 30, 2013 and 2012, total borrowings on the line of credit were $259,399 and $164,179, respectively. The notes payable and line of credit are guaranteed personally by certain donors.

During 2012, the Foundation entered into a $8,200,000 line of credit with Commerce Bank that matures April 2024; is payable in quarterly installments with a variable interest rate of 3.25% - 3.35%, and secured by certain property and investments. The purpose of this line of credit is for construction of a building for the University, as described in Note 17. As of June 30, 2013, the Foundation has not drawn on this line of credit.

Aggregate annual maturities of long-term debt at June 30, 2013, are:

2014	$ 821,122
2015	591,565
2016	300,376
2017	73,620
2018	43,903
Thereafter	660,000
	$ 2,490,586

Total interest expense on long-term debt amounted to $149,608 and $153,092 during 2013 and 2012, respectively.

On September 12, 2013, the Foundation acquired financing, via Series 2013 D Revenue Bonds, totaling $9,035,000. The bonds were issued to fund construction of the new Department of Agriculture headquarters on Foundation owned property in the K-State Research Park. The Foundation's obligation to make payments under the loan agreement is limited to the lease amounts received from the Department of Agriculture pursuant to an Assignment of Leases and rents between the Foundation and the Bond Trustee. Lease payments are subject and dependent upon appropriations being made by the Kansas Legislature for such purpose. Coupon rates range from 2% to 5% with scheduled semi-annual payments beginning April 1, 2014 through October 1, 2033.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

During the years ended June 30, 2013 and 2012, approximately 14% and 11% of total contributions received were related to the football stadium renovation campaign and 22% and 14% were received in one gift to the Foundation for Engineering, respectively.

Litigation

Management is not aware of any significant outstanding litigation. The Foundation is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

At June 30, 2013 and 2012, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 11% and 8% of total assets, respectively.

Allowance for Doubtful Collections on Pledges Receivable

Management estimates an allowance for doubtful collections on pledges based on historical trends, individual donor circumstances and current economic conditions. Actual future collections on pledges could result in material future losses.

Note 16: Conditional Promises

Conditional promises are not recognized in the financial statements due to the unknown occurrence of a specified future and uncertain event. Donors have notified the Foundation of conditional promises approximating $268,000,000 and $40,000,000 at June 30, 2013, in the form of bequests and life insurance policies, respectively. Future amounts received may vary significantly as the potential donor has no obligation to retain the Foundation as the beneficiary. Additionally, the timing of any receipts on conditional promises is unknown. As a result, the Foundation has not applied a discount rate to these amounts.

Note 17: Related Party Transactions

The purpose of the Foundation is to aid, foster, and promote the development and welfare of Kansas State University (“University”) in Manhattan, Kansas, and the education and welfare of its students, faculty and alumni, and to acquire property of all kinds for purposes stated above. The Foundation is dependent upon the existence of the University.

At June 30, 2013 and 2012, the Foundation owed approximately $767,000 and $730,000, respectively, to the University for scholarships that had been awarded by the University.

During the year ended June 30, 2012, the Foundation entered into a capital lease agreement with the University. The lease term is 12 years, commencing on February 1, 2012. Under the lease agreement, the Foundation will construct a Feed Mill using various funding sources, which include private funds, grants and donations. After these funding sources are exhausted, the Foundation will draw upon the $8,200,000 line of credit available from Commerce Bank *(see Note 14)* to complete the Mill. The lease payments from the University will mirror the payment terms required by the line of credit. Upon completion of the Feed Mill, the University will pay the Foundation for any remaining amounts due related to construction costs incurred. The Feed Mill will be transferred to the University once all costs have been reimbursed, and the lease will then terminate. As of June 30, 2013, there have been no expenditures on the project or draws on the line of credit. As such, the Foundation has not recognized a receivable, and no payments are due under this lease agreement.

The Foundation has a loan policy for the University administration and colleges to assist in financing various projects. Loans may be issued in two pools; $50,000 to $200,000 for a maximum of three years or $200,000 to $1,500,000 for a maximum of five years. The interest rate for these loans is the comparable term constant maturity Treasury rate plus 2%. The loans are lines of credit guaranteed by funds for the University and/or college and require monthly interest payments.

At June 30, 2013 and 2012, the Foundation had the following open lines of credit issued to the University:

Issued To	Purpose	Available Funds	Maturity	Outstanding at June 30, 2013	Outstanding at June 30, 2012
College of Agriculture	Flour Mill	$1,000,000	March 1, 2017	$ 1,000,000	$ 1,000,000
College of Agriculture	Stanley Stout Center	1,200,000	May 1, 2014	583,110	-
College of Human Ecology	Justin Hall addition	1,500,000	June 1, 2016	357,736	1,142,728

Note 18: Subsequent Events

Subsequent events were evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.